

VZCZCXRO6664
PP RUEHPA
DE RUEHAB #1209/01 3411755
ZNY CCCCC ZZH
P 071755Z DEC 07
FM AMEMBASSY ABIDJAN
TO RUEHC/SECSTATE WASHDC PRIORITY 3809
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
INFO RUEHZK/ECOWAS COLLECTIVE
RHEHNSC/NSC WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 ABIDJAN 001209

SIPDIS

SIPDIS

STATE PASS TO USTR C.HAMILTON
EEB FOR T.HASTINGS
TREASURY FOR D.PETERS, R.HALL

E.O. 12958: DECL: 12/03/2017
TAGS: [EFIN](#) [ECON](#) [EAID](#) [PREL](#) [PGOV](#) [IMF](#) [IBRD](#) [IV](#)
SUBJECT: COTE D'IVOIRE: GOVERNMENT MEETING 2007 BUDGET
TARGETS BUT OUAGA SUPPLEMENTAL ACCORD PRESENTS PROBLEMS FOR
2008 BUDGET

REF: ABIDJAN 1176

Classified By: Econ Chief EMassinga, Reasons 1.4 (b,d)

11. (C) Summary. A Joint International Monetary Fund, World Bank and African Development Bank team briefed the donor community on its initial findings on November 26. The assessment team was broadly complimentary of the government's efforts to remain within budget targets and to adopt more transparent fiscal expenditure processes. However, the team found the government has not been able to reign in Presidential expenditures, hold the line on political decisions with budgetary implications, (such as giving in to striking teacher's demands for a salary increase) or improve the management of oil and gas revenues. The result is that spending on social sector needs has been suppressed. The IFIs are pushing the GoCDI to make a stronger commitment for 2008, as they move towards a mid-December WB staff decision on whether to recommend that its Board accept Cote d'Ivoire's progress on fiscal governance as sufficient to approve a USD 60 million IMF budget support package. End Summary.

Joint IMF, WB, AfDB Team Presents Findings on Structural Reforms

12. (C) The IMF, WB and AfDB sponsored a joint team to Cote d'Ivoire to assess progress in implementing governance reforms and repayment of WB and AfDB arrears. On November 26, Mr. Zeljko Bogetic, Chief Economist at the Fund and chief of the joint mission reported broad satisfaction in a briefing to the principal donor community. For the 2007 budget, the bottom line is being respected. Government expenditures through September are one percent over the January-September budget target, making meeting the 2007 budget goal a realistic possibility. Additionally, the government is mobilizing its own resources to pay 50 percent of its USD 480 million arrears to the WB and 33 percent of its USD 560 million arrears to the AfDB (reftel). Bogetic also expressed general satisfaction with the progress in implementing structural reforms to promote greater transparency in fiscal expenditures, particularly in the cocoa/coffee sectors and in oil and gas revenue.

13. (C) Despite overall satisfaction with the direction of government reform, Bogetic noted several significant weaknesses in the government's performance. First, Sovereign spending, the account controlled directly by the Presidency and Prime Minister (with 3/4 belonging to the former), is running at the same high levels seen in 2006, despite government promises to the IFIs' to reduce the level

of expenditures. (Note: a local IMF economist told Emboff that the sovereign account is some USD 100 million out of a total budget of USD 4 billion). As a result, desperately needed investments in the health and education sectors, for example, have not been made. Bogetic also said that the government's decision to incorporate 4,000 so-called "New Recruits" into the armed forces had put unanticipated pressure on the budget. (Note: The "New Recruits" were brought on after the start of hostilities in 2002, and were promised regular status and the same "war bonuses" other soldiers and gendarmes, but were not integrated into the government's armed forces until mid-2007.) Similarly, raises for teachers who went on strike and expenditures for elections preparation had not been incorporated into the 2007 budget. Looking to the 2008 budget, these new commitments, combined with the government's apparent intent to continue paying "war bonuses" (despite Gbagbo's having declared the war 'over') will make it difficult for Cote d'Ivoire to meet the established budget targets. Further clouding the budget outlook are government plans to establish a "service civique" early in 2008 to provide training to armed elements who agree to disarm. The WB Country Director had previously told the Ambassador that the Bank would not support this program, but would support communities affected by disarmament. How the government plans to finance the service civique is still a question mark.

14. (C) Turning to government receipts, Bogetic said that the pace of receipts was strong, running at or slightly above projections. In particular, coffee/cocoa revenues remained solid, and oil and gas continue to provide reliable income. For 2008 and beyond, Bogetic said the IFIs are pushing for the state-owned oil company PETROCI to

ABIDJAN 00001209 002 OF 002

contribute to the national treasury, something it does not do currently. The IFI team reported that the results of the oil, gas and electricity production audits will be completed soon, and provided to donors' missions in Washington by the end of 2007. (Comment: IMF Country Director Phillipe Eugume told Emboff privately that Fund projections for the government's petroleum-related revenue is approximately USD 400 million annually, while several private banking and oil industry sources separately indicate such revenues are closer to USD 750 million. End Comment)

15. (C) Discussing priorities for the 2008 budget, Bogetic said the international community should demand increased baseline expenditures on social programs and the country's deteriorating infrastructure base, along with a concomitant decrease in sovereign spending to close an anticipated USD 70 million budget shortfall. The IMF representative mused that electricity subsidies would have to be trimmed (a step we doubt the government will take in an election year), and that keeping the military budget solvent with the upcoming integration of Forces Nouvelles troops will be essential. Cote d'Ivoire's adoption of a published 2008 budget will be a sine qua non for IFI engagement in 2008. IMF Country Director Eugume declined requests to share the results of the cocoa/coffee and oil/gas audits, as well as assessments of the 2007 budget and 2008 projections (with hard figures straight from the IMF's interface with the Ministry of Finance's fiscal control system), indicating such information will be provided to the donors through their Board representative, probably in February 2008.

16. (C) The IFI team indicated that the WB Board will meet in December to decide on several Ivorian issues - the effectiveness of fiscal governance measures; disbursement of the second USD 60 million tranche of post conflict assistance and a possible USD 275 million Economic Governance and Recovery Grant. The grant, combined with the government's own funds, would finally put to rest Cote d'Ivoire's WB arrears. This in turn would open the door to

reviving USD 104 in old WB credits and loan programs (in transportation improvement, land tenure and education and training projects) that are currently suspended.

Budgetary Implications of the Supplementary Ouagadougou Accord, Signed November 28

17. (C) In the wake of the Ouaga Supplementary Accord, even great uncertainty reigns over the budget with the prospect of even more substantial, new costs that could cause serious disruptions. These costs include: a renewed disarmament effort, the integration into the civil service of thousands of "volunteer" teachers who, since 2002, have filled the gap left by regular teachers who fled their usual place of residence; pay to Forces Nouvelles troops who are to be integrated in the country's regular armed forces; the "service civique" and infrastructure improvements promised by the President during his recent swing through the north. Initial reaction by the donor community to the Supplementary Ouaga has been cool in light of the technical difficulties the government will face in trying to finish the audiences foraines and conduct an identification program so that elections can be held in June, 2008.

18. (C) Comment: Despite grumbling from the donor community over imperfect transparency, the IFI appear to be making some progress in terms of persuading the government of the need for greater social spending and transparency. The big picture is not, however, particularly encouraging in that the investments needed for long term improvement - most notably in health, education and infrastructure, are evidently being sacrificed to meet short term, political imperatives. The IFIs envision an aggressive timetable leading to a large assistance package in 2008. Other donor representatives in Abidjan are eager to see exactly what cards IFI staff are holding (oil/gas revenues estimates, assessment of the 2007 and 2008 budgets) before passing judgment on progress made so far. End Comment.
NESBITT